



Order 2001-1-22

Served: February 1, 2001

**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 29th day of January, 2001

Essential Air Service at:

AUGUSTA/WATERVILLE, BAR
HARBOR, AND ROCKLAND, MAINE,
AND RUTLAND, VERMONT

Under 49 U.S.C. 41731 *et seq.*

Docket OST 97-2784 ~ 8

ORDER TENTATIVELY RESELECTING CARRIER

SUMMARY

By this order we are tentatively reselecting Colgan Air, Inc., to provide subsidized essential air service at Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont, for the two-year period January 1, 2001, through December 31, 2002, at an annual rate of \$2,750,475 initially, decreasing to \$2,536,579 on or about April 1, to reflect reduced service at Rutland.

BACKGROUND

Colgan Air has provided subsidized service to these communities for many years. Order 99-1-2 last selected Colgan to serve these four communities and set a final rate through December 31, 2000, in the amount of \$2,387,225 annually. The proposed rate we are initially authorizing in this order reflects the same level of service that Colgan Air is currently providing. However, on or about April 1, we are reducing the amount of service that we will subsidize at Rutland from four nonstop round trips per day to three.

Under our normal procedures when nearing the end of a rate term, we contact the incumbent carrier to determine whether it is interested in continuing service and whether it will continue to require subsidy. If the carrier wishes to continue service with subsidy, we usually negotiate a new subsidy rate with the carrier, issue an order tentatively reselecting the carrier for a new rate term at the agreed rate, and direct other parties to show cause why we should not finalize our tentative decision. Other carriers wishing to submit competing proposals are invited to do so in response to the show-cause order; if any such proposals are filed, we process them as a competitive case. Consistent with this practice, we invited Colgan Air to submit a proposal for continuation of essential air service at the four New England communities.

CARRIER SERVICE PROPOSAL

In response to our inquiry Colgan Air submitted and negotiated a renewal proposal for an additional two-year rate term. (See Appendix B to this order for a summary of the subsidy computation for Colgan Air.) At the Department's request, the carrier submitted two options. Under each option the carrier proposes to operate service with 19-seat Beech 1900 equipment. Colgan's proposed service under Option 1 would be the same as the historical service level. It would serve all four communities to the Boston hub, with weekly frequencies as follows: Augusta/Waterville, 12 nonstop and 12 one-stop round trips; Bar Harbor, 12 nonstop and 12 one-stop round trips; Rockland: 18 nonstop and 6 one-stop round trips; and Rutland, 24 nonstop round trips. Based on informal rate discussions held between the carrier and the Department staff, an annual subsidy rate of \$2,750,475 was agreed upon. Under Option 2, Colgan would reduce its service at Rutland from four nonstop turnaround round trips per day to three.

TENTATIVE RESELECTION

We will tentatively reselect Colgan Air to provide essential air service at the four communities as detailed in Appendix C, for an additional two-year period. Traffic has grown at the communities in response to Colgan's reliable service and the communities remain supportive of Colgan's service. We note that except for the increase in fuel prices, the subsidy level at these communities would have remained the same. Traffic has increased at all four communities, from 29,800 in 1994 to 57,671 for the year ended September 30, 2000. Colgan also recently became a USAir code-share partner, which promises further traffic growth in these markets. We will therefore tentatively reselect Colgan to serve these communities.

On a long-term basis, we have decided to select Option 2, reduced service at Rutland, for \$2,536,579 annually. We note that all of the communities in this proposal except Rutland share their capacity with other communities. For example, the aircraft are routed Bar Harbor-Augusta-Boston and Bar Harbor-Rockland-Boston. Rutland's flights, on the other hand, are routed Rutland-Boston and return, making all 19 seats available to Rutland passengers. Moreover, Rockland and Bar Harbor generated considerably more passengers than Rutland. We were willing to subsidize four round trips a day at Rutland in the past because the community had long been served subsidy free and we had hoped that securing this extra service would help rebuild the traffic levels and reduce the community's long-term subsidy need. However, as Appendix D shows, most of the traffic growth at these four communities since 1994 has been at Bar Harbor, Rockland, and Augusta. While traffic has grown at Rutland, it has not grown nearly as much as at the other communities during that period. Three round trips a day to Boston will continue to provide good service to Rutland, and will accommodate historical passengers at a level of 4.4 passengers per trip. Finally, we recognize that Colgan cannot adjust its schedule immediately for the reduced Rutland service, and so will make the new rate effective on or about April 1.

OBJECTIONS OR PROPOSALS

As is our usual program practice, we will allow interested parties 20 days to object to our decision and/or to file competing proposals. If no timely objections or competing proposals are filed this order will automatically become final. We expect persons objecting to our

tentative decision to support their objections with relevant and material facts. We will not entertain general, vague, or unsupported objections.

Carriers interested in filing competing proposals, with or without subsidy requests, should file them within the 20-day period set for objections. At the end of that period, our staff will docket any competing proposals, thereby making them public, and direct each carrier to serve a copy of its proposal on the civic parties and other applicants. Each applicant, including the incumbent, will then have an opportunity to finalize its proposal in rate discussions with Department staff before we seek final community comments. We will give full consideration to all proposals that are timely filed.

As a general matter, we request proposals that would provide at least three round trips a day from the communities to a suitable hub with twin-engine aircraft operated by two pilots. We will also entertain proposals to other hubs that provide access to the national air transportation system in order to give the Department and community as broad an array of proposals as possible from which to choose. Of course, as always, we will formally solicit the community's views on any service options we receive before making a long-term carrier selection decision.

SERVICE HISTORY AND TRAFFIC DATA

Colgan Air has served these communities for a number of years. Appendix D shows traffic data for each community for the last several years.

PROCEDURES FOR FILING PROPOSALS

For interested air carriers that are not familiar with our procedures and recommended form for supplying the necessary information, we have prepared two explanatory documents that we will make available upon request. The first describes the process for handling carrier replacement cases under 49 U.S.C. 41734(f) and discusses in detail the process of seeking proposals, conducting financial and operational audits of the applicant carriers and selecting a replacement carrier. The second is an evidence request containing an explanatory statement and a copy of section 14 CFR 204.4 of the Department's regulations which deals with the information required of all applicants for authority to provide basic essential air service, and provides schedules giving our recommended form for submitting data required for determining the financial and operational ability of applicants to provide dependable air service.¹

¹ Copies of these documents can be obtained from: EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, 400 7th Street, S.W., Washington, DC 20590. Telephone requests for these documents are accepted at (202) 366-1053.

COMMUNITY AND STATE COMMENTS

If we receive competing proposals the communities and States are welcome to submit comments on the proposals at any time.² Early in the proceeding, comments on the perceived strengths and weaknesses of the proposals would be particularly helpful to the Department, although the civic parties may also express a preference for a particular carrier or proposal option at that time, if they choose. In any event, after we conclude rate conferences with all applicants, we would provide a summary of the conference results to the civic parties and ask them to file their final comments.³

OTHER CARRIER REQUIREMENTS

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.⁴ Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with regulations governing lobbying activities. All carriers that plan to submit proposals involving subsidy should submit the required certifications along with their proposals. Interested carriers requiring more detailed information regarding these requirements as well as copies of the certifications should contact the Office of Aviation Analysis at (202) 366-1053. The Department is prohibited from paying subsidy to carriers that do not submit these documents.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. The Department has routinely monitored the carrier's continuing fitness. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason why we should not find that Colgan remains fit. Colgan has experience providing essential air service at these communities, and, based

² Civic parties should file an original and five copies of their comments in Docket OST-97-2784. Comments should be addressed to: Documentary Services Division, Docket Section, SVC 124.1, Office of the Secretary, U.S. Department of Transportation, Room PL 401, 400 Seventh Street, S.W., Washington D.C. 20590.

³ In cases where a carrier proposes to provide full essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not normally hold rate conferences. Instead, we rely on the carrier's subsidy-free service.

⁴ The regulations applicable to each of these areas are (1) 49 CFR Part 20, New Restrictions on Lobbying, Implementing title 31, United States Code, section 1352, entitled "Limitation on use of appropriated funds to influence certain Federal contracting and financial transactions"; (2) 49 CFR Part 29, Subpart F, Drug-Free Workplace Requirements (Grants) implementing the Drug-Free Workplace Act of 1988; (3) 49 CFR Part 21, Nondiscrimination in Federally-Assisted Programs for the Department of Transportation--Effectuation of Title VI of the Civic Rights Act of 1964; 49 CFR Part 27, Nondiscrimination on the basis for Handicap in Programs and Activities Receiving or Benefiting from Federal Financial Assistance; and 14 CFR Part 382, Nondiscrimination on the Basis of Handicap in Air Travel.

on its operating record, we find that the carrier continues to be fit to provide the essential air transportation at issue in this case.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. The Department tentatively reselects Colgan Air, Inc., to provide essential air service at Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont, for the two-year period from January 1, 2001, through December 31, 2002;
2. The Department sets the final rate of compensation for Colgan Air, Inc., for the provision of essential air service at Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont, for the two-year period from January 1, 2001, until further Department action, at \$2,750,475 per year, as described in Appendix C-1, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month by \$378.70;⁵
3. The Department tentatively sets the final rate of compensation for Colgan Air, Inc., for the provision of essential air service at Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont, for the two-year period beginning on or about April 1, 2001, through December 31, 2002, at \$2,536,579 per year, as described in Appendix C-2, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month by \$372.48;⁶
4. In the event objections or competing proposals are received, the rate in ordering paragraph (2) above will be effective as a final rate from January 1, 2001, until further Department action;
5. We find that Colgan Air, Inc., continues to be fit, willing, and able to operate as a certificated air carrier and is capable of providing reliable air service at Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont;

⁵ See Appendix C for calculation.

⁶ See Appendix C for calculation.

6. We direct Colgan Air, Inc., to retain all books, records, and other source and summary documentation to support claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

7. This docket will remain open until further order of the Department; and

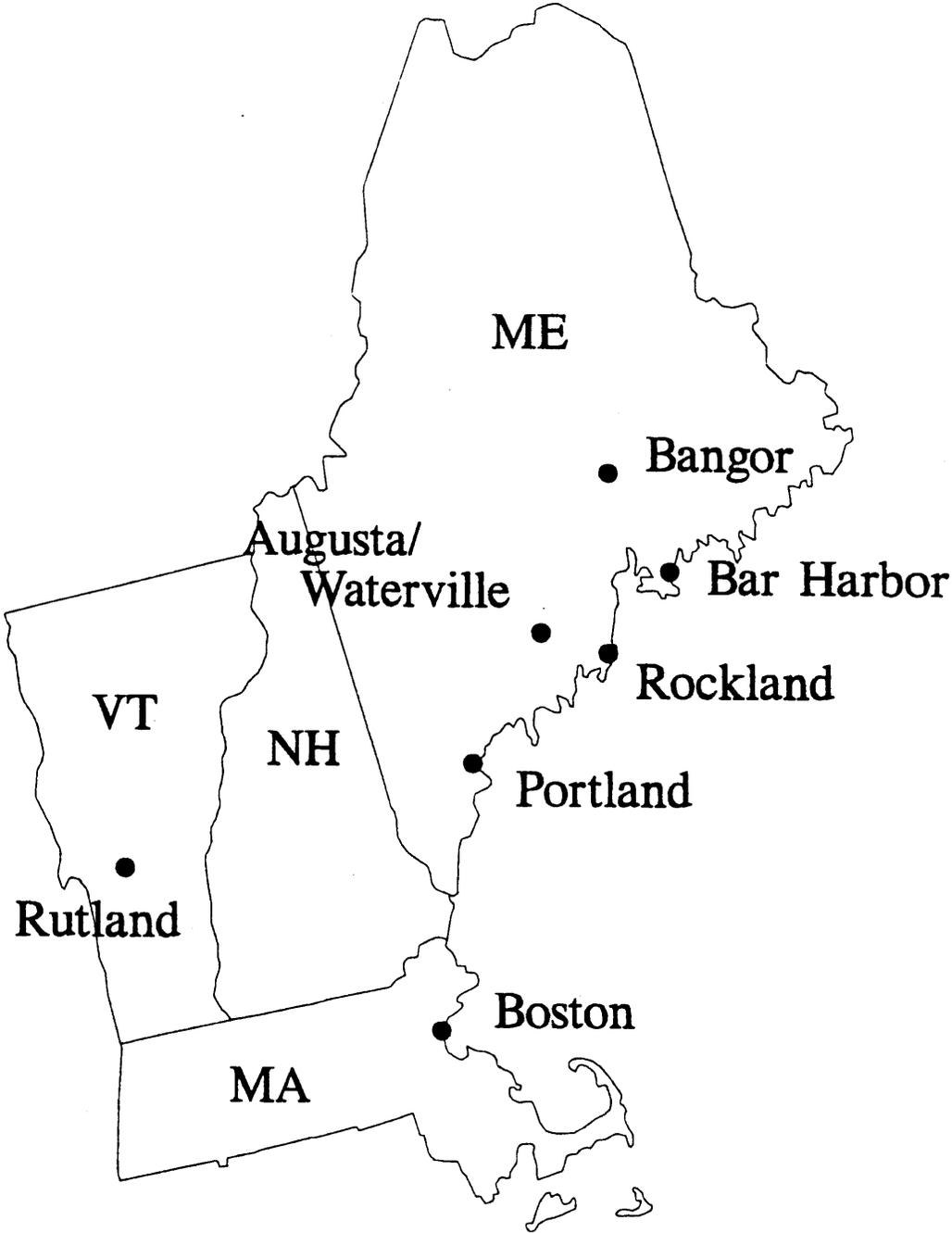
8. We will serve a copy of this order on the Mayors and airport managers of Augusta/Waterville, Bar Harbor and Rockland, Maine, and Rutland, Vermont, the Maine and Vermont Departments of Transportation, and Colgan Air, Inc., and the carriers listed in Appendix E.

By:

Susan McDermott
Deputy Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web
http://dms.dot.gov/reports/reports_aviation.asp*



Mileages to Boston

Augusta/Waterville	148
Bar Harbor	196
Rockland	152
Rutland	127

Colgan Air, Essential Air Service at Augusta/Waterville, Bar Harbor, and Rockland, Maine
and Rutland, Vermont, Docket 2784

	Service per <u>Order 99-1-2</u>	Reduced Service <u>at Rutland</u>
Total Revenue	\$5,107,305 1/	\$4,989,411 3/
Flight Hours	6,112 2/	5,776 4/
Fly. Ops @ \$107.18/hr.	\$655,084	\$619,072
Fuel @ \$193.75/hr. 5/	\$1,184,200	\$1,119,100
Maint. @ \$289.40/hr.	\$1,768,813	\$1,671,574
Lease @ \$35,500/month/plane	\$1,150,200	\$1,107,600
<u>Ins. @ \$6,691/month/plane</u>	<u>\$216,788</u>	<u>\$208,759</u>
Total Direct Expenses	\$4,975,085	\$4,726,105
<u>Station Expense</u>		
Salaries	\$421,330	\$421,330
BOS Grd. Hdlg. @ \$8.60/enpl. pax.	\$228,248	\$222,637
AUG @ \$848/month	\$10,176	\$10,176
BHB @ \$2.85/enp. pax.	\$30,938	\$30,938
RKD @ \$4.87/enp. pax.	\$34,740	\$34,740
BOS Ldg. Fee @ \$19.92	\$65,318	\$60,298
RUT Ldg. Fee @ \$8	\$9,688	\$7,672
AUG rent @ \$1,200/month	\$14,400	\$14,400
BHB rent @ \$935/month	\$11,220	\$11,220
RKD rent @ \$992/month	\$11,904	\$11,904
RUT rent @ \$355/month	\$4,260	\$4,260
Other	\$6,684	\$6,684
<u>Other Indirects</u>		
USAir per pax. charge @ \$10/pax.	\$530,810	\$517,760
Rev-related @ 6.3%	\$321,760	\$314,333
Marketing & Promotion	\$34,440	\$34,440
Crew Training	\$99,081	\$93,634
<u>G&A @ 9.89% of Other Exp.</u>	<u>\$673,517</u>	<u>\$645,078</u>
Total Indirect Expenses	\$2,508,515	\$2,441,504
Total Operating Expenses	\$7,483,600	\$7,167,610
<u>Profit Element @ 5%</u>	<u>\$374,180</u>	<u>\$358,380</u>
Economic Cost	\$7,857,780	\$7,525,990
Annual Compensation @ 97% Completion	\$2,750,475	\$2,536,579

1/ AUG, 8,403 @ \$95.23; BHB, 21,711 @ \$97.29; RKD, 14,267 @ \$98.75; RUT, 8,700 @ \$90.34

2/ Per Order 99-1-2, Appendix B.

3/ RUT, 7,395 @ \$90.34, or 51,776 total pax.

4/ One less weekday r.t. than in Order 99-1-2: 10 flts.*40 min.*52 weeks *.97/60 = 336 hours; 504 flights.
(252 fewer landings each at Rutland and Boston).

5/ 155 gph @ \$1.25 per gallon.

Colgan Air, Inc., Essential Air Service to be Provided to Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont Docket OST-97-2784

Effective Period: January 1, 2001, until on-or-about April 1, 2001 ¹

Scheduled Service: Augusta/Waterville: 12 nonstop and 12 one-stop round trips each week to Boston; Bar Harbor: 12 nonstop and 12 one-stop round trips each week to Boston; Rockland: 18 nonstop and 6 one-stop round trips each week to Boston; Rutland: 24 nonstop round trips each week to Boston

Aircraft: Beech 1900s.

Rate per Boston Departure/Arrival: \$378.70 ²

Weekly Ceiling at each Community: \$18,177.60 ³

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

¹ Because traffic at these communities is highly seasonal markets, for payout purposes we will make payments to Colgan on the basis of the off-peak period only. See footnotes two and three below.

² Annual compensation of \$2,750,475 divided by the estimated annual completed departures and arrivals at a 97 percent completion factor at each community:
48 departures/arrivals x 39 weeks x .97 x 4 communities = 7,263 total.

³ Subsidy rate per arrival/departure at Boston of \$378.70 multiplied by 48 subsidy-eligible arrivals and departures each week. During 13 weeks each summer, Colgan shall receive no subsidy support but will be required to maintain the service above.

Colgan Air, Inc., Essential Air Service to be Provided to Augusta/Waterville, Bar Harbor, and Rockland, Maine, and Rutland, Vermont Docket OST-97-2784

Effective Period: On-or-about April 1, 2001, through December 31, 2002 ¹

Scheduled Service: Augusta/Waterville: 12 nonstop and 12 one-stop round trips each week to Boston; Bar Harbor: 12 nonstop and 12 one-stop round trips each week to Boston; Rockland: 18 nonstop and 6 one-stop round trips each week to Boston; Rutland: 18 nonstop round trips each week to Boston

Aircraft: Beech 1900s.

Rate per Boston Departure/Arrival: \$372.48 ²

Weekly Ceiling each at Augusta, Bar Harbor, and Rockland: \$17,879.04 ³

Weekly Ceiling at Rutland: \$13,409.28 ⁴

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

¹ Because traffic at these communities is highly seasonal markets, for payout purposes we will make payments to Colgan on the basis of the off-peak period only. See footnotes two and three below.

² Annual compensation of \$2,536,579 divided by the estimated annual completed departures and arrivals at a 97 percent completion factor at each community:
48 departures/arrivals x 39 weeks x .97 x 3 communities = 5,448 total;
Rutland, 36 departures/arrivals x 39 weeks x .97 = 1,362 total; 6,810 total.

³ Subsidy rate per arrival/departure at Boston of \$372.48 multiplied by 48 subsidy-eligible arrivals and departures each week. During 13 weeks each summer, Colgan shall receive no subsidy support but will be required to maintain the service above.

⁴ Subsidy rate per arrival/departure at Boston of \$372.48 multiplied by 36 subsidy-eligible arrivals and departures each week. During 13 weeks each summer, Colgan shall receive no subsidy support but will be required to maintain the service above.

Appendix D

Historical O&D Traffic at Augusta, Bar Harbor, and Rockland, Maine,
and Rutland, Vermont

	<u>Augusta</u>	<u>Bar Harbor</u>	<u>Rockland</u>	<u>Rutland</u>
CY 1992	14,784	9,037	12,275	3,152
CY 1993	10,564	9,813	6,113	2,151
CY 1994	4,971	10,522	8,046	6,261
CY 1995	9,997	13,126	9,460	7,403
CY 1996	6,866	14,829	9,656	6,215
CY 1997	6,035	16,722	12,260	4,794
CY 1998	8,171	19,634	6,503	8,004
CY 1999	6,649	22,786	14,347	7,153
YE 9/30/00	8,191	26,556	14,980	7,944

Note: Passenger counts in 1996 and 1997 were depressed when the department reduced required service to ten round trips a week in response to budget cuts. Nonetheless, Colgan operated some service above this level on its own initiative, especially at Bar Harbor. Also, Colgan has recently provided extra service during the peak summer period at Bar Harbor and Rockland above the level it is required to provide.

SERVICE LIST FOR THE STATE OF MAINE

Acadia Air, Inc.
Amerijet International, Inc.
Aroostook Aviation, Inc.
Colgan Air
Corporate Air, Inc.
Delta Connection
Florida Air, Inc.
Lands Ending Corporation
Maine Instrument Flight School
Metroflight, Inc.
Midway Airlines, Inc.
Midwest Express Airlines, Inc.
Northeast Express Regional Airlines, Inc.
Northwest AirlinK
Spectrum Airlines, Inc.
Valley Air Services, Inc.
Westward Airways, Inc.

Chester Anderson
Ken Bannon
Gregorio Salas Calvo, Jr.
Sabrina Cranor
Joel DeGrandis
E.B. Freeman
Robert Hart
A. Edward Jenner
John McFarlane
Eric Nordling